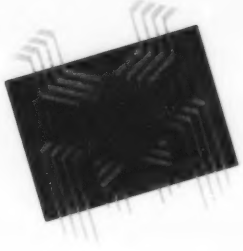
Investment forum de l'investissement

INVESTING IN CANADA'S FUTURE



A REPORT ON THE
INVESTMENT FORUMS
JUNE 1992

Investing in Canada's Future

A Report on The Investment Forums

June 1992

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Comments should be addressed to:

John Knubley
Director, Investment Research
Investment Canada
P.O. Box 2800, Station D
Ottawa, Ontario
K1P 6A5
Telephone: (613) 995-7077

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Investment Canada wishes to acknowledge with thanks the work of the following organizations at the Forums held in their respective cities. The Fraser Institute in Vancouver, the Canada West Foundation in Winnipeg, the Institute for Research in Public Policy in Montreal, the Atlantic Provinces Economic Council in Halifax, and the Conference Board of Canada in Toronto.

Aussi disponible en français.

INVESTMENT CANADA

INVESTISSEMENT CANADA

August 31, 1992

The Honourable Michael Wilson, P.C., M.P.
The Minister Responsible for Investment Canada
235 Queen Street
11th Floor
Ottawa, Ontario
K1A 0H5

Dear Minister:

This report on the Investment Forums has been prepared for your review and action, and reflects my interpretation of the priorities and the most frequently-mentioned requirements for investing in Canada's future.

The attitude of the nearly 700 participants was both encouraging and challenging. I was particularly struck by the eagerness with which Canadians embraced the national investment challenge, and the degree to which positive suggestions for action came forward in each forum.

Business leaders came to talk about the investment climate and how it is becoming increasingly important to "get it right" in order to compete effectively in today's international marketplace. We were also told that all Canadian governments must do a better job of fostering a competitive investment climate by streamlining activities and through changes to the tax system.

It was not just business leaders who spoke of the investment challenge, however. Other stakeholders also saw investment as a priority. There was a strong recognition at the Investment Forums that new partnerships and new solutions are needed in order to succeed. In today's changing international business environment, investment flows have important synergies for trade and technology acquisition. All stakeholders must get the elements of this challenge right -- that is, integrating trade, technology and training and doing so through investment. These are the keys to our success.

.../2

P.O. Box 2800, Station 'D', Ottawa, Ontario, Canada K1P 6A5 Telex 0534450
B.P. 2800, Succursale Postale 'D', Ottawa, Ontario, Canada K1P 6A5 Telex 0534450

In sum, we were told that Canada needs an action plan that will encourage a long-term, strategic approach to investment by all concerned. There is a clear link between savings, investment and prosperity. Those who save and invest, prosper. The success of several of our G-7 competitors demonstrates the benefits of such an approach. Those who attended the Forums seemed well aware of these benefits and most exhibited a visible commitment to be the best, to be entrepreneurs, and to be world leaders in innovation and training.

We all know that there are no simple solutions to the complex issues of competitiveness. The dialogue generated by the Investment Forums has, however, provided a solid foundation upon which the federal government can build, in cooperation with all Canadians. I was personally disappointed that more labour representatives did not participate in our forums, but I hope to find ways to resolve this shortcoming in the near future. I am nevertheless confident, as I know you are, that we can meet the national investment challenge. Now is the time for all stakeholders to get on with the job.

Yours sincerely,

Jean McCloskey

Jean C. McCloskey
President

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EXECUTIVE SUMMARY

The Investment Forums were designed to highlight investment — both international and domestic — as a key to Canada's future prosperity. The objective was also to increase awareness among Canadians of the urgent need for an enhanced national investment effort as a necessary step to achieving sustained productivity and economic growth. Discussions at all of the Forums were organized around a plenary and four workshop sessions — The National Investment Challenge, Making Quality Investments, Seeking Foreign Investments and Canadian Firms in Global Markets.

GLOBALIZATION

Globalization has had a profound impact on both international and domestic business strategies. Since 1980 international investment flows have grown faster than trade and world output, with the result that investment is now the engine of growth in the new economic order. It is no longer possible to maintain a secure and protected domestic market. In order to succeed today, business enterprises must be competitive in both domestic and world markets. Firms must now adopt integrated strategies that include trade, investment, and technology to take full advantage of market opportunities. Although many businesses are ahead of governments and other stakeholders in their understanding of the dynamics of globalization, Canadian firms must become even more international in their orientation, focussing on niche markets as well as on strategic international alliances. All stakeholders must recognize the need to use international benchmarks to measure success in meeting their competitiveness goals.

INVESTMENT CLIMATE

Investment and the investment climate are acknowledged as key priorities for Canadian business. There is a general perception that a widening gap exists between Canada and the United States, its major competitor, with respect to business costs — and that this gap is not to the benefit of Canadian business. In this context, there was a call for a competitive tax framework to promote savings, investment and innovation in Canada. In order to support long-term investment, the Canadian tax system must encourage stability and simplicity, and provide business with a low overall tax burden designed to create a level playing field. Specific changes to the tax system were suggested that would encourage long-term, high-quality investments. These included such measures as an acceleration of the Capital Cost Allowance, the elimination of the Capital Gains Tax on "quality" investments, rules to encourage more equity investment, enhanced R&D incentives, the removal of apparent disincentives to employee share participation, and the harmonization of the Goods and Services Tax and the Provincial Sales Tax.

GOVERNMENTS AND THE INVESTMENT CLIMATE

Strong views were expressed concerning the proper role for governments. It was recognized that the private sector plays the leading role with respect to investment, and that governments have an important secondary role — creating the environment and supporting the infrastructure in which investments are made. It was unanimously agreed that federal and provincial deficits are detrimental to Canada's investment climate. Governments must act to reduce these deficits. In addition, governments were urged to streamline their programs and policies so as to reduce the burden on business. Governments should act primarily as facilitators. The issue of government coordination was also raised, particularly with respect to the negative impact on the investment climate when one jurisdiction frustrates the efforts of others. Close coordination of policies affecting the investment climate is needed. Finally, social and environmental initiatives must be judged against their impact on

competitiveness by using "competitiveness audits" wherever possible.

Partnerships

Stakeholders must work together in more productive partnerships. Canadian society must curb the "we/they" mentality — which has led to conflict in the past and is detrimental to the investment climate. More attention must be given to long-term gains and the search for "win/win" solutions. Competitiveness audits, for example, could bring all stakeholders together on specific issues, thereby helping to keep the focus on competitiveness as other policy and program issues are addressed. In addition, better linkages should be forged between firms and organizations undertaking research, education and training. More flexible arrangements at the firm and sector levels are needed to facilitate training and Total Quality Management (TQM). There should be more employee participation and shareholding in firms and strategic alliances and technology consortia should be expanded. Cluster strategies that foster linkages among large and small firms, as well as with suppliers, should also be encouraged.

Financing Growth

Financial intermediaries play an important role in all aspects of the investment decision, but there is room for improvement. Pension funds should be encouraged to be more entrepreneurial and to invest more actively in equity positions. Tax policy should foster the creation of venture capital pools. This would be of great benefit to small business, providing access to equity capital. The knowledge gap between users and suppliers of capital in the high-technology area has to be bridged in order to facilitate the preparation of better business plans and promote a better understanding of the "soft" assets involved. Long-term, "patient" capital requires promotion, including access to international venture capital sources.

Innovation and Research and Development (R&D)

It is essential that Canada improve its R&D effort and encourage firms in all sectors to implement innovative processes in all areas of their activity. There is favourable tax treatment, but there are weaknesses requiring action. More emphasis should be placed on "development" issues. The definition of R&D should be expanded to include activities related to process and commercialization. Industry-based R&D should have easier access to government R&D facilities and activities. There should be more cooperation — including partnerships — between governments, business and universities. Finally, there should be more university research focussing on the commercialization of ideas.

Education and Training

Education and training are high priority issues. The status quo is no longer acceptable. The Canadian educational and training system is in serious need of a complete overhaul to meet the needs of the new global economy. All stakeholders should better manage human resources to their full potential. Illiteracy is a serious problem in the workplace. National standards and testing — regardless of jurisdiction and the division of powers — are strongly recommended. The educational system must do more to promote an understanding of business and an appreciation of entrepreneurship in a global economy. Business wants to play a larger role in the training process, and an opportunity to tell educators what skills are needed in the workforce. Training is particularly important in those areas where business and labour have common interests.

International Investment Promotion

Canada must be more creative in attracting foreign investment to overcome the American lead in the courting of the international investor. Attracting investment should be seen as a business by all stakeholders and those involved in the promotion of investment must understand both the product and the market. High growth sectors should be a priority and there should be more information available on sectoral and firm-specific opportunities. In seeking international investment, more coordination among governments (including municipal) is needed to streamline activities and to encourage "one-stop shopping" by investors. Canadian direct investment abroad does not cost jobs, rather it develops valuable

"home base" activities in Canada; home base activities benefit the home country through the emergence of industrial clusters. There was also support for further liberalization of both domestic and international markets, with securing a Canadian common market given top priority. Although everyone seemed to have something different to say about the Free Trade Agreement (FTA), the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA), all agreed that Canada faces a global and increasingly liberal trade and investment environment. Even though there were scattered references to branch plants and inadequate R&D, most felt that the benefits of foreign direct investment (FDI) far outweigh the costs. In today's global environment it is the performance of multinationals that counts, not ownership.

ATTITUDES

Nearly all participants shared the view that Canadians' attitudes toward international investment and competitiveness must change. As long as Canadians consider their glass to be "half empty, rather than half full", protectionist sentiments and an inward focus will continue; these are not conducive to success in the new economic order. Attitudes can be changed by actively promoting business values and the benefits of wealth-creating activity. This can also be achieved through the educational system with more visible partnerships between international business and education and increased recognition of the achievements of successful firms and individuals (national awards, etc.).

NATIONAL INVESTMENT CHALLENGE

Participants accepted the "investment challenge" as a given — the concept of investment in its broadest sense, in terms of physical capital, human capital and innovation. Few issues bear more importantly upon competitiveness than investment. Investment in buildings, infrastructure, and machinery and equipment accounts for almost one-quarter of Canada's GDP each year. Such investment replaces worn-out and outdated capital and adds new capital that strengthens the nation's productive capacity. This generates increased income and wealth, enabling more savings and investment, in a mutually reinforcing process. New investment brings new technology, increased knowledge, and more skilled labour into the economy. In meeting the investment challenge, the business community must focus less on quarterly financial results and more on long-term results. Other stakeholders, including governments, must direct their attention to the long term as well. The discussion of the quantity/quality issue confirmed our conclusions — a stronger investment effort is crucial to sustained productivity and economic growth. Simply increasing the quantity of investment, without increasing the quality, is not enough. Investment in physical capital is not a panacea for improving Canada's productivity performance, but it is a necessary condition for keeping up with international competition.

NEXT STEPS

The Investment Forum process was one avenue of consultation under the broader Prosperity Initiative of the Government of Canada. The consultation process has provided Investment Canada with valuable information that has been shared with the Prosperity Steering Group, as well as with other federal government departments. The Agency will use this information, and the Prosperity Steering Group report, to focus all stakeholders on investment issues. Broadly-based commitment to an action plan on investment would represent good progress toward meeting the national investment challenge.

Introduction

Nearly 700 people attended the Investment Forums held in Vancouver, Winnipeg, Toronto, Montreal and Halifax during June 1992. The business community was well represented and particularly active at all sessions. Executives from many of Canada's best-known firms offered strong views on "what needs to be done". However, the consultations were much more than just a platform from which corporate Canada could speak out. Many interests were represented, including those of social groups and the academic community. Unfortunately, labour was hardly present — partly because the timing of the Forums coincided with the annual Canadian Labour Congress (CLC) convention. Officials from Investment Canada intend to consult further with labour representatives to determine the best way of gaining their insights.

This document constitutes the report promised the Forum participants by way of follow-up to the consultations. By regrouping the views expressed according to the broad themes and issues that emerged during the consultations, this digest should give all readers a good sense of the interaction achieved at the five Forums. For those who were unable to attend the consultations, the report also provides a useful overview of the topics that served as the focus for the workshops.

The Minister has reviewed this report, and has discussed its contents with his Cabinet colleagues and other senior government officials. The report was also forwarded to the Prosperity Steering Group. The next step is to build on these consultations — together with business, labour and other governments — and to produce an action plan on investment. This will form one part of the federal government's future micro-economic agenda.

The Investment Forums were organized by Investment Canada on behalf of the Honourable Michael Wilson. Support for the Forums was also provided by the Departments of External Affairs and International Trade Canada, Industry, Science and Technology Canada, and Western Economic Diversification Canada.

Purpose of Consultations

The Investment Forums were designed to raise the profile of investment as a key determinant of Canada's future prosperity. It was also hoped that they would raise the general level of awareness among Canadians of the need for a national investment effort as a necessary step to achieving productivity increases and sustained economic growth.

The federal government is determined to secure and strengthen Canada's competitive position. Global pressures are relentless and Canada must become more productive if it hopes to retain its number one ranking position — as designated by the United Nations — as the best place in the world to live and work. Investment in plant and equipment is one of the most pressing challenges of international competitiveness to which Canadians must now respond. Related to this challenge are the complementary needs to invest in human capital and innovation. This response, however, depends primarily upon the views, decisions and actions of many thousands of private-sector firms across Canada. Many factors influence a decision to invest — not the least of which is the investment climate in Canada and how that climate compares to those in other countries.

Making an investment decision is not a simple matter. Many factors are involved and the roles played by many individuals are crucial. In this context it was felt by officials of Investment Canada that a broadly-based set of consultations with all stakeholders in the economy was necessary. Business executives are unquestionably the key stakeholders in a country's fixed capital formation; nonetheless, the labour force

ultimately determines productive capacity. Federal, provincial and municipal governments can and should play a strong supporting role. In order to do this well, however, governments must know what drives private decision-making. Also, a wide range of community interests influences the degree to which Canadians and foreigners are willing to invest in Canada. The educational system, for example, plays a vital role in preparing young people for employment and in serving the increasing need for continuous learning and training.

The investment consultations were part of the Government of Canada Prosperity Initiative and as such respond to some fundamental facts.

- National prosperity cannot be built on short-sighted, short-term actions, whether taken by executives focussed on the next quarter, or politicians focussed on the next election.
- Any long-term strategy in a democratic society requires broad public support, which in turn requires high levels of public awareness concerning the choices before Canadians.
- Many of the solutions to our national problems rest less and less with the state and more and more with individuals and firms.

Investing in Canada's future requires, therefore, an ongoing dialogue about the many factors that bear upon the investment decision. From this dialogue, and with the active assistance of stakeholders, the Government of Canada intends to forge an action plan for the long term — an agenda to ensure that in the twenty-first century Canada will be an even stronger investment choice.

FORMAT FOR CONSULTATIONS/ FOLLOW-UP REPORT

Four themes were selected to structure the concurrent workshops. These are shown on the right.

These themes were intended to stimulate wide-ranging discussion and debate. Because the themes are interdependent, there is considerable overlap, which makes their strict separation somewhat forced. This was reflected in the concluding plenary sessions when rapporteurs for each of the workshops reported on the highlights of their discussions. Several issues and concerns emerged consistently in each of the workshops. As one rapporteur noted:

> *It was interesting to listen to the accounts; although we were all assigned what appeared to be quite separate and distinct topics, it was striking to see how much overlap there was in the nature of the discussions in each workshop.*

Instead of reporting on all the major points made in each workshop, therefore, the views and advice of participants have been grouped

Workshop Themes - Investment Forum

Theme 1: The National Investment Challenge
Canada will need to intensify its investment effort during the 1990s, which also means increased savings and less current consumption. The investment climate must be highly favourable and all stakeholders must play a part in helping Canada realize its investment requirements.

Theme 2: Making Quality Investments
The quality of investment is as important as the quantity. We need to invest smarter, not just more. We cannot afford to repeat past mistakes, nor overlook opportunities in high-technology areas and rapidly growing markets.

Theme 3: Seeking Foreign Investment
Foreign investment is needed both to supplement domestic savings and to help integrate Canada with international markets and new technology developments. To attract foreign investment, the expected rates of return from investing in Canada must be competitive with opportunities in other countries - particularly in the United States.

Theme 4: Canadian Firms And Global Markets
An end to the "old order" means an end to being introspective and isolationist. Canada must be even more outward oriented than it is currently. Investment, trade and technology are increasingly transnational, and Canadian firms must restructure to compete on a global basis.

according to the key issues and concerns that most often emerged from the workshop themes. To avoid repetition, a point raised by a participant is not necessarily identified under the heading of the specific workshop he or she actually attended. To illustrate: although all workshops entailed discussion about the competitiveness of the tax system, this discussion is summarized in the commentary on Theme 1, the National Investment Challenge.

It is important to note that there was no attempt to reach a formal consensus in the workshops. Discussions were completely free-wheeling. The views and advice of the participants, consequently, are not put forward here as recommendations. What follows is an attempt to capture the essence of the rapid-fire exchanges and ideas that gave the proceedings such vitality.

Presentations to the Opening Plenary Sessions

Each Investment Forum began with a presentation on some aspect of the investment challenge – the experiences of Canadian home-based firms striving to become global players, for example. Canada's past investment performance and future investment needs were also set out as background information for participants.

In addition to the above, all participants were provided with background information on the investment climate and the four workshops. Much of this material is contained in this report and appears on separate pages dispersed throughout the text. "The Investment Pillar" relates to all four themes and illustrates the various components of the investment challenge.

As shown in the Investment Pillar, the main sources of investment are savings and financial intermediaries. The core of the pillar identifies the various types of domestic and international investment. The physical investment in business construction, machinery and equipment, and infrastructure is complemented by investment in skills and training as well as in technology. Such investment leads to benefits which greatly influence Canada's long-term competitive position and which above-all, result in a higher standard of living for all Canadians.

Increasingly, investment is becoming a cross-border activity; it is vital for Canada that foreigners participate actively in our economy and it is equally vital that Canadians invest aggressively in other countries. Only in this way will Canada be at the forefront of globalization.

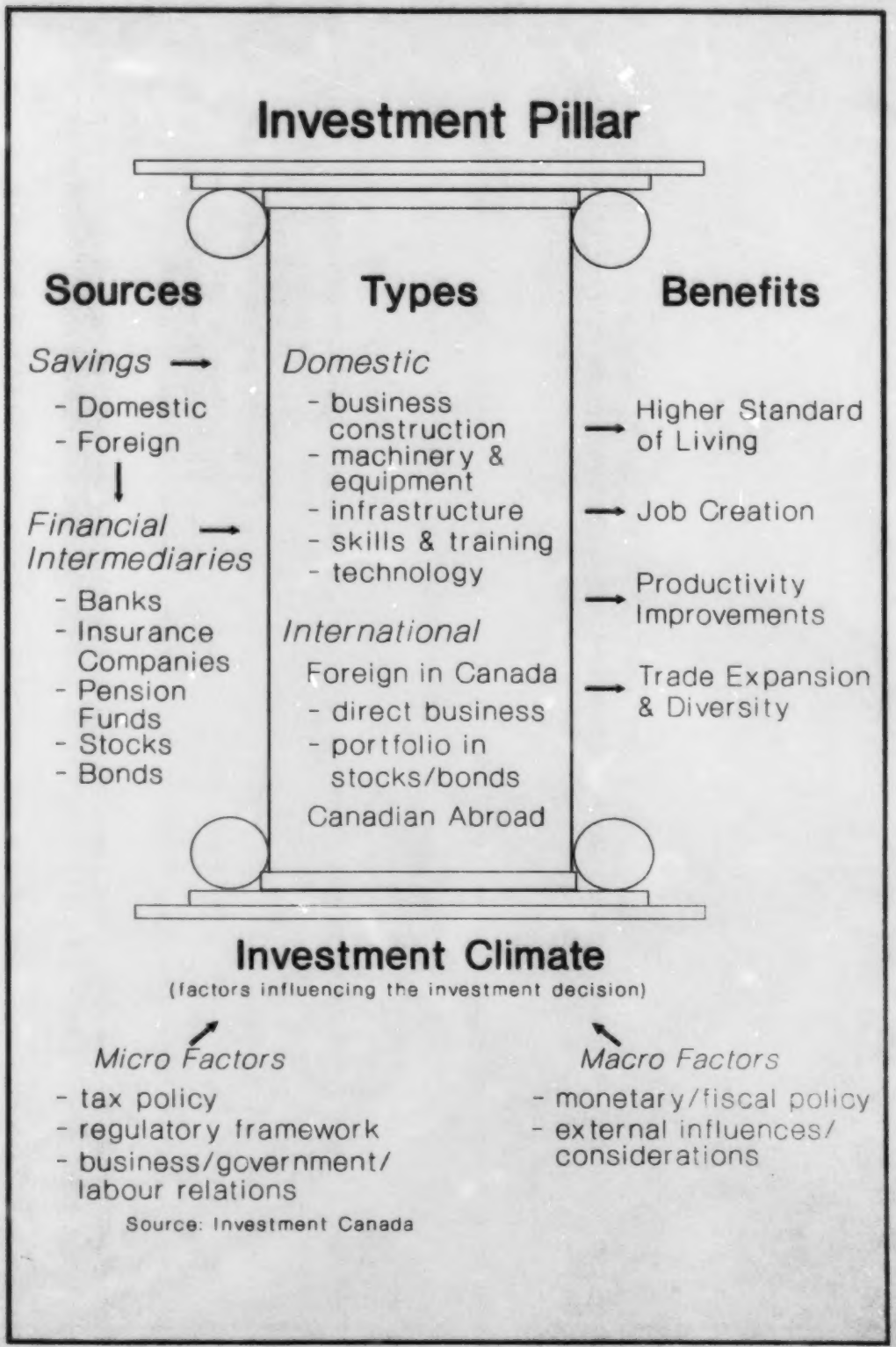
The investment climate referred to at the base of the pillar identifies the factors that determine whether or not sufficient business capital is employed in Canada. Unless Canada's domestic investment climate compares favourably to those of its major competitors abroad, investment opportunities will be lost. Similarly, the investment climate has an important bearing on the level of savings in Canada and how those savings are channelled into investments that serve our long-term competitiveness interests.

The investment climate in Canada determines the degree to which it makes good business sense to serve global markets from a Canadian base. It is not surprising, therefore, that there was a preoccupation with the investment climate at all of the workshops; it is a key dimension of Canada's future prosperity.

The Vancouver Forum

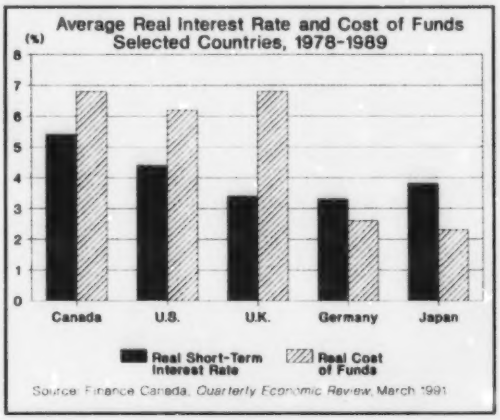
Stanley Kwok, Director and Senior Vice-President of Concord Pacific Developments, reminded the Vancouver Forum that, in essence, an investment decision is centred on how best to maximize profits and that attracting foreign investment to Canada is really no different from determining how to encourage domestic investment. In his view, the double burden of heavy taxation and regulation — and constant changes to them — badly detract from Canada as a place to invest.

John Pitts, President of MacDonald Dettwiler, told the story of his firm which provides customized computer systems and has been very successful in "going global". He attributes that success to paying scrupulous attention to customers' needs, finding innovative ways to meet those needs,


Investment Pillar
Sources
Types
Benefits
Savings
- Domestic
- Foreign
Financial Intermediaries
- Banks
- Insurance Companies
- Pension Funds
- Stocks
- Bonds
Domestic
- business construction
- machinery & equipment
- infrastructure
- skills & training
- technology
International
Foreign in Canada
- direct business
- portfolio in stocks/bonds
Canadian Abroad
Higher Standard of Living
Job Creation
Productivity Improvements
Trade Expansion & Diversity
Investment Climate
(factors influencing the investment decision)
Micro Factors
- tax policy
- regulatory framework
- business/government/ labour relations
Macro Factors
- monetary/fiscal policy
- external influences/ considerations
Source: Investment Canada

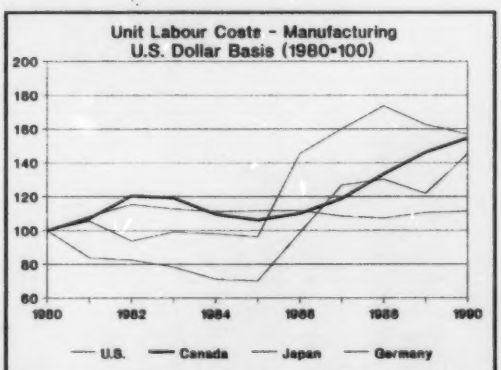
THE INVESTMENT CLIMATE
(3 KEY ELEMENTS)

• Both the real interest rate and the cost of funds remain slightly higher in Canada than in the U.S., but are far higher than in Germany or Japan.



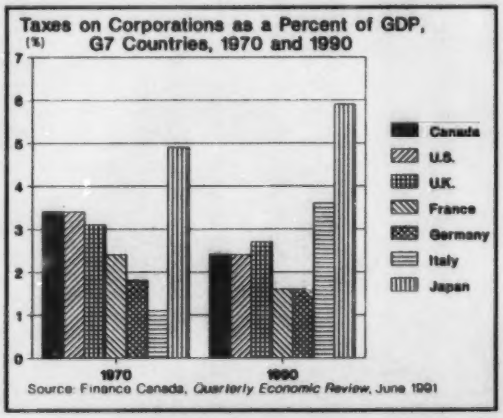
Source: Finance Canada, *Quarterly Economic Review*, March 1991

• The sharp increase in unit labour costs relative to Canada's major trading partners has been one of the most worrisome weaknesses of the investment climate in recent years. In turn, this has resulted in poor productivity growth and a more rapid increase in wages and salaries.



Source: Investment Canada, based on data from U.S. Department of Labor

• Compared to the 1970s, corporate tax reform in Canada has kept pace with developments within the G7.



Source: Finance Canada, *Quarterly Economic Review*, June 1991

exercising cost control, the positive image of Canadian products in international markets, and the superb quality of life in Vancouver, which makes it easier to attract and retain a high-quality workforce.

The Winnipeg Forum

Dr. Donald Reimer, President and CEO of Reimer Express Enterprises Limited, argued a strong case at the Winnipeg Forum, citing specific examples of comparative cross-border conditions between Canada and the United States and how they affect investment decisions. Dr. Reimer suggested that two important factors had contributed to a significant shift in investment in trucking from Canada to the United States: lower taxes (especially fuel taxes), and more flexible labour laws. The solution, according to Dr. Reimer, is to harmonize the Canadian tax regime and labour laws more closely with those of the United States.

Art Price, President and Chief Executive Officer of Husky Oil Limited, suggested several measures for improving Canada's competitiveness. In his view the tax system should be altered to favour long-term domestic equity financing rather than debt financing; the current system exacerbates the negative effects of Canada's cyclical economy. R&D should be more effectively promoted by providing government funding only to R&D funded jointly by the private sector and educational institutions, thereby forging relationships and providing a base for commercialization through proprietory ownership. The direct accountability of employees for company performance should be promoted by ensuring that the tax system does not penalize employees who receive stock in the company in lieu of pay. Regulatory changes should be introduced to encourage the growth of Canadian-based multinationals. Finally, Mr. Price suggested a fundamental reorientation of Canada's tax structure in terms of values — away from the practice of burdening investment capital and employed people, our most important inputs and more toward taxing undesirable outputs like emissions, effluents and garbage.

The Montreal Forum

Reed Scowen, Senior Advisor on Investment to the Minister of International Affairs of the Government of Quebec, outlined for the Montreal Forum the attractions Quebec holds for foreign investors. Quebec Inc., with its system of networks, allows for a degree of coherence and collaboration that is unique and particularly useful in implementing investment projects. Since foreign investment in Quebec is often undertaken by foreign enterprises already established in the province, Mr. Scowen argued that promotion should have a local as well as an international dimension. Further, the strategy adopted by the Quebec Government focusses on developing industrial clusters and involves a number of sectors — such as pharmaceuticals and aeronautics — which exhibit high levels of foreign ownership.

Donald Beaupré, Chairman and CEO of SR Telecom Inc., explained how his firm emerged from a large multinational to become a successful Quebec-based, Canadian-owned telecommunications equipment company. The history of the company is essentially one of entrepreneurship in an era of high technology and global markets. Mr. Beaupré attributes his company's success to the identification of a market niche and the development of a global product specifically designed for that market. The National Research Council helped overcome technical problems related to product design; financial support from the federal government was also very helpful.

The Halifax Forum

Tom Hayes, President of Atlantic Fish Specialties, provided the Halifax Forum with a valuable perspective of the global trading environment from the standpoint of a small business. The history of the firm has been marked by strategic adjustments — positioning and repositioning — to adversity (such as that arising from underpriced Norwegian salmon produced by heavily subsidized Norwegian fish farms) and opportunity (such as that generated by the rapidly growing ocean cruise industry). In his view, Canada has a responsibility to assist small firms such as Atlantic Fish Specialties by dealing more effectively with currency fluctuations and trade disputes. He mentioned that non-tariff barriers imposed by the Food and Drug Administration in the United States can disable small Canadian firms who do not

have the clout or resources to engage in international trade disputes.

David Lyons, President of R&D Lyons Consultants, addressed the topic of strategic alliances and joint ventures. Joint ventures are especially important for small Canadian firms in overcoming the obstacles to becoming global players. He stressed that Europeans regard Canada as a bridge to trade in the Americas and that Europeans are actively seeking Canadian partners. Atlantic businesses can flourish through such partnerships, as illustrated by a Nova Scotian marine electronics firm. Two-way technology transfers and easy access to global markets are important benefits of international joint ventures. Good working relationships and continuing contact between partners are essential ingredients for a successful long-term alliance.

The Toronto Forum

Stephen Van Houten, President of the Canadian Manufacturers' Association (CMA), highlighted the key findings of the "CMA Management Issues Survey 1992". He underscored the fact that Canadian manufacturers have been very hard hit by the recession. With severely depressed sales, most see little prospect for growth in the immediate future. He contends that, in addition to these cyclical economic woes, unfavourable tax and regulatory policies — together with the high Canadian dollar — have devastated many firms. Despite a generally gloomy outlook, a few rays of hope are beginning to emerge — such as a more reasonable rate of exchange for the Canadian dollar, export benefits from free trade, a recent surge in productivity, increased training commitments, and the widespread adoption of total quality management practices. In addition, more companies are now investing in advanced production technologies — a significant trend which has developed over the past four years.

Gordon Sharwood, President of Sharwood and Company, signalled a vigorous call to arms in support of the small and medium-sized business sector. He stressed the dynamism of this sector, which traditionally fosters entrepreneurialism and creates the most jobs. He also argued strongly that this sector has special problems and it should therefore be nurtured by special initiatives — such as improved access to capital (especially equity capital), better tax treatment (especially with respect to capital gains), and a much less complicated regulatory system.

Douglas Barber, CEO of Gennum Corporation, made an equally spirited appeal for Canadians to "stretch the miles by shutting off the gas heater" — a reference to his old Volkswagen. By this he meant Canadians must aim for a higher level of efficiency and must recognize the urgent need to adapt to the realities of today's global marketplace. He explained how Gennum's corporate culture is based on the concepts of excellence and cost awareness. He also stressed that a bonus plan for all employees provides everyone with a strong incentive to increase productivity and to pay attention to the bottom line. He concluded with an appeal to all stakeholders in the economy to adapt to the new economic order to sustain Canada as the best place in the world in which to live and to invest.

WORKSHOP ON THEME 1 — THE NATIONAL INVESTMENT CHALLENGE

. . . Most . . . of our decisions to do something positive . . . can only be taken as a result of animal spirits — of a spontaneous urge to action, and not as the outcome of the weighted average of quantitative benefits . . .

John Maynard Keynes
The General Theory of Employment, Interest and Money

ENDORSEMENT OF "INVESTING IN CANADA'S FUTURE"

Forum participants strongly endorsed the theme of "Investing in Canada's Future" and expressed a broad view of what this entails. Investment in people, R&D, innovation, and greater entrepreneurship were dimensions that many participants considered to be at least as important as investment in physical capital, if not more so. As emphasized at the Vancouver Forum with reference to the Keynes quotation (above), investment decisions are ultimately taken by individuals in pursuit of a good rate of return, and are often influenced as much by "animal spirits" and entrepreneurial impulses as by rational, economic logic.

Key Points For Discussion - The National Investment Challenge

- How does Japan manage to have an investment effort double that of Canada, particularly with respect to machinery and equipment?
- How could an intensified investment effort in Canada be realized? Will it occur automatically in response to market forces or is a concerted national effort needed? How can Canada generate the domestic savings necessary to support an intensified investment effort?
- Is investment and innovation still perceived as a threat to job security and, if so, what can be done to create a more positive response?
- Is the state of public infrastructure a major problem? From a business-competitive perspective, what are the priority areas for improvement?
- What are the key government policies that bear upon Canada's investment effort?
- What broad policy changes or initiatives would materially improve Canada's investment effort?
- What are particular concerns at the sectoral level? The firm level?

GETTING THE INVESTMENT CLIMATE RIGHT

There was a unanimous view that "getting the investment climate right" is fundamental to the national investment challenge and there is much to be done. Participants acknowledged the impact of globalization on Canadian firms, and the rising importance of the investment climate as international markets are more and more the benchmarks of firm activities. There was a strongly-held view that governments are not responding to global realities, and as a result are saddling Canadian firms with serious cost disadvantages. Specific government policies identified included taxation, the social "safety net", labour laws and the environment.

BUILDING A COMPETITIVE TAX SYSTEM

Perhaps the most constant refrain was "taxes, taxes, taxes!". Major issues included stability, simplicity and providing the lowest possible overall tax burden. More than ever, the tax system must help business by creating a "level playing field" since many firms are increasingly experiencing the impact of greater competition and falling barriers to trade and investment.

Participants urged Canada to adopt tax policies that establish a competitive tax system — one that promotes investment, savings and innovation. There was a general complaint that the Canadian tax system is not competitive with its major competitors — most notably the United States. This presents a particularly difficult challenge because analysis by the federal government indicates

THE NATIONAL INVESTMENT CHALLENGE

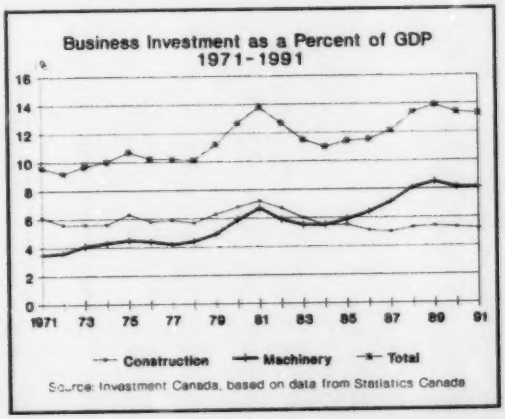
- Investment in buildings, infrastructure and machinery accounts for almost one quarter of Canada's GDP.
- Investment rates in the late 1980s remain below those of earlier periods.
- For most of the post-war period, domestic saving has fallen short of investment requirements, necessitating capital inflows.
- In the last half of the 1980s, domestic saving has been significantly below capital requirements, due to public sector or government fiscal conditions. Consequently, net foreign indebtedness has increased rapidly.

Canadian Investment and Saving Rates, 1951-90

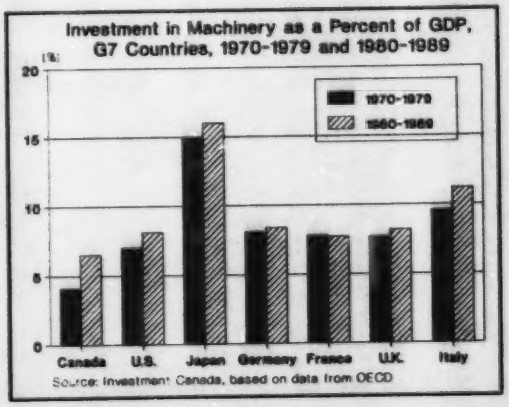
	Percent of GDP (current dollars)		
	Investment	Net Inflow	Savings
1951-55	21.6	1.4	20.2
1956-60	24.2	3.5	20.7
1961-65	22.4	1.7	20.7
1966-70	24.0	0.6	23.4
1971-75	23.3	0.9	22.4
1976-80	23.7	2.0	21.7
1981-85	21.7	0.2	21.5
1986-90	22.8	1.8	21.0

Source: Investment Canada, based on data from Statistics Canada

- Due to the machinery component there has been an upward drift in business investment's share of GDP since the early 1970s.
- During the last half of the 1980s, machinery's share of GDP increased by two full percentage points. Despite this increase, Canada's productivity growth record has been poor.



- Due to differences in geography, capital-intensity and population growth, it is difficult to make cross-country comparisons.
- Nevertheless, investment's share of Canadian GDP increased to the OECD average during the 1980s, surpassing the United States by the end of the decade.
- Despite recent growth in business investment, especially in the important machinery component, Canada is still last among the G7 countries in the share of GDP going to machinery and equipment investment.



that the taxes affecting competitiveness are roughly comparable in Canada and the United States. (See Investment Climate, page 8.) Citing the experience at the Investment Forum consultations, however, senior business people hold strongly to the view that for them, the opposite is true.

The discussions generated a number of fundamentals that participants considered to be necessary if the tax system is to support long-term investment. These include accelerating the Capital Cost Allowance, eliminating the Capital Gains Tax on "quality" investments, introducing measures to encourage more equity investment, removing current disincentives to employee share participation, establishing measures to facilitate the creation of venture capital pools and harmonizing the Goods and Services Tax and the Provincial Sales Tax.

CANADIAN ATTITUDES MUST CHANGE

Participants regarded all of these investment-related policies ultimately as reflections of the prevailing ethos of Canadian society. Similarly, the demand for investment and the supply of investment funds, although influenced by government policy, are primarily functions of Canadian attitudes toward savings, investment, profits and entrepreneurship. Participants stressed that it is crucial to change attitudes toward wealth creation if Canadian society is to provide adequate incentives to investment.

> *Canadians must develop a more positive attitude. Typically, they say their glass is half empty rather than half full.*

> *Canadians should stop viewing profit as a dirty word. Profit is both good and necessary.*

The responsibility for moulding more positive attitudes lies with all Canadians and all stakeholders — governments, business, academia, and labour. The irony is that foreigners generally have a very high regard for Canada and Canadian products. Canadians should take pride in and celebrate its "winners". There were several references to building a competitive and united team to participate in the global economy, just as Team Canada does in international hockey.

Despite a few expressions of doom and gloom prompted by the recession, participants generally acknowledged Canada's strengths and urged that we build on them. While Canada has a number of acknowledged strengths — including its financial system, a well-developed service sector, and a high-quality infrastructure — it has serious weaknesses as well. First, and most important, Canada's labour force needs "love and attention" as well as genuine support. The educational system must be improved and training upgraded and extended. Interestingly, participants in Vancouver were particularly supportive of higher immigration levels — especially immigrants with skills in short supply in Canada.

THE NEED FOR A LONGER-TERM PERSPECTIVE

Many Forum participants echoed the views of Art Price. The Canadian obsession with quarterly financial results must cease and the business community must focus more on results over the longer-term. It was noted that many foreign firms, particularly Japanese, willingly accept longer time horizons than their Canadian and American counterparts. For example, the Japanese commit to building technological competencies, rather than particular products. From a long-term perspective, low inflation and lower interest rates were seen to be helpful too, although many participants still perceived interest rates to be too high. It was noted that real interest rates (i.e., taking into account the effects of inflation) had actually increased in recent months.

SHIFTING FROM CONSUMPTION TO SAVINGS

At the heart of the dynamics of changing attitudes and adopting longer-term perspectives is an important shift from consumption to savings. It was generally recognized that over the long term, Canada will have to stop relying on foreign debt to make up the shortfall between Canadian savings and national investment in the country. The shortfall of Canada's savings effort below the national investment effort in the 1980s was significant and worrisome. To control, and perhaps to reduce, the increasing burden of Canada's external debt, the national savings share of GDP must be increased.

The New Economic Order and Adjustment

Several Forum participants noted that modern technological developments and global restructuring frighten many working Canadians. Unfortunately, such fears can have a debilitating effect that is reflected by a loss of the dynamism and adaptability necessary to compete effectively in international markets. Some participants indicated that a paradigm shift is required for Canadians to understand the importance of adapting rapidly to new technology. Such a paradigm shift requires the development of new practices and techniques in line with the valuable synergies between trade, technology and investment.

Employment losses experienced during 1981 and 1982, as well as those caused by the recent recession, have triggered high levels of anxiety, great uncertainty and negativism among Canadians. A more confident attitude must be instilled in Canadian workers if Canada is to participate aggressively in emerging economic opportunities. Many participants voiced their special concern for young people, many of whom have found their career aspirations badly stalled by current labour market conditions. Investment in physical capital and in people must become more complementary.

Social Policies and Competitiveness Audits

Participants recognized that in today's global economy, all social and economic policies are interdependent and, accordingly, it is inappropriate to initiate policies in one sector without taking into account their consequences for another. Some participants raised questions about Canada's social programs, particularly the Unemployment Insurance Program, and recognized the need to ensure that they work hand-in-hand with the work ethic and competitive spirit. Again and again, it was acknowledged that social programs are very important components of the Canadian fabric. However, it was also agreed that the time has come to renew some programs and to link them more closely with wealth creation. While some simply called for their elimination or severe cutbacks, the majority noted that better integration of social and economic programs would make everybody better off. From this perspective, it was argued that economic and social policies must be constantly adapted to ensure that they reinforce each other. Some participants advocated competitiveness audits to ensure that economic performance and competitiveness are priorities in the formulation and assessment of all policies and programs. The impact of environmental policies on Canada's competitiveness were also discussed.

Renew Canada's Political and Federal System

Canada's political stability and economic prosperity are the cornerstones of its citizens' very high standard of living and enviable quality of life. And "enviable" is truly "le mot juste" because Canadians are, indeed, viewed by much of the world with considerable envy. The rest of the world is also incredulous that Canadians would even consider jeopardizing their futures by contemplating the country's breakup. Participants urged quick resolution of the constitutional impasse.

Participants noted the lack of coordination between monetary and fiscal policy, and the tendency of provincial governments — especially Ontario — to play havoc with the federal macro-economic agenda. They cited difficulties such lack of coordination has precipitated — as witnessed by Canadian efforts to manage interest rates and the dollar at a time when free trade with the United States demanded competitive rates that would facilitate structural adjustment. Concern was also expressed about the persistent deficits and debt situations of the federal and provincial governments. Some called for a constitutional provision prohibiting deficit financing. The bottom line is that Canadians want their governments to get their acts together.

Montreal participants felt strongly that there is an urgent need to develop a common national economic vision around which all Canadians and institutions can rally. More specifically, Canada must identify its economic strengths and weaknesses, as well as its goals, and focus its efforts accordingly. All stakeholders must be part of the process of addressing the national investment challenge.

WORKSHOP ON THEME 2 — MAKING QUALITY INVESTMENTS

The post-war experience in Canada suggests that a main lesson from the past concerns the quality of investment efforts. There are open questions about the pace of innovation and the appropriate mix of capital formation . . . Although it was relatively high in the 1980s, machinery and equipment spending has not yet translated into the innovative practices that are traditionally expected to contribute directly to productivity growth.

David W. Slater
The Contribution of Investment and Savings to Productivity and Economic Growth in Canada

QUALITY OF INVESTMENT IS AS IMPORTANT AS QUANTITY

Forum participants strongly agreed that the quality of investment is as important as the quantity. Canada cannot afford to waste its resources — whether they relate to skilled labour, investments that turn sour, or results whose yield is below expectations. Paper entrepreneurship created by leveraged buy-outs and other forms of debt financing was often unproductive during the 1980s. Canada needs investment driven by solid long-term yields and prospects of genuine growth.

RECOGNITION THAT CAPITAL IS HIGHLY MOBILE

Participants suggested that because of the unfavourable tax situation, the high cost of labour and a number of other considerations (including the uncertainty associated with the threat of Quebec's separation) many Canadian business executives are seriously considering shifting their operations to other countries; in fact, some have already done so. Many participants said any new, incremental investments in their firms are now being channelled outside Canada. Lower land costs and property taxes, together with other inducements offered by state governments in the United States are some of the reasons claimed for such moves. It was also acknowledged that "pull" factors have figured prominently in firms' decisions to move out of Canada. Establishing a strong presence in a foreign market is part of the strategy in "going global". However, unless the investment climate in Canada improves considerably, Canadian enterprises will not secure high-quality investments and the quality of jobs available to Canadians will ultimately suffer.

Key Points For Discussion - Making Quality Investments

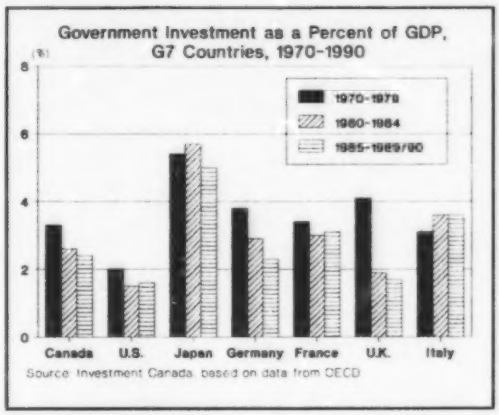
- How can the quality of business investment be improved so as to avoid some of the pitfalls that occurred during the 1980s?
- Where should Canada be investing? Should the high technology sectors be more heavily favoured? Is Canada losing out to the rest of the world respecting high-growth sectors?
- Given the vital importance of a highly skilled and mobile labour force, how should investment in physical capital be linked with investment in human capital? What needs to be done in order to better integrate investment in innovation and investment in training?
- What broad changes in government policies are needed to ensure that quality investments are generated in Canada?
- Has there been a serious cross-border movement of business to the United States? Is this a reflection of global rationalization or disadvantages to operating in Canada? If the latter, what are the major problems?
- Are interprovincial barriers to trade harming investment decisions? What are the priority issues concerning the economic union that bear upon quality investment in Canada?
- What partnerships are needed between the government and private sectors to ensure that the quality of investment in Canada improves?

THE NEED FOR A WELL-FUNCTIONING FINANCIAL INTERMEDIARY SYSTEM

Generally, participants supported the role played by financial intermediaries in channelling domestic and foreign investment funds. However, the Vancouver Forum registered a

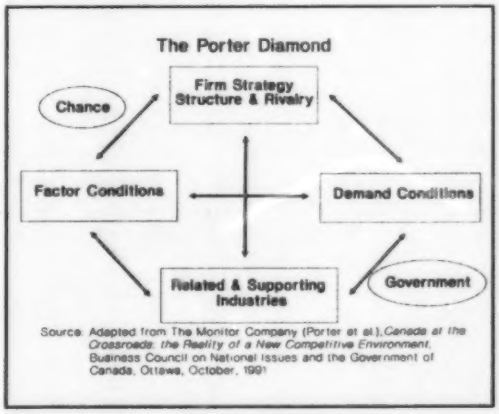
MAKING QUALITY INVESTMENTS

- Public sector investment declined in the 1980s, but Canada still ranks in the middle of the G7.
- Business investment was high in the 1980s, but this spending has not yet translated into faster productivity growth.
- This raises questions about the quality of investment - the appropriate mix between private and public investment, between physical and human capital and the rate of absorption of frontier technology. Canada may not be directing its investment resources toward areas where their return is highest.



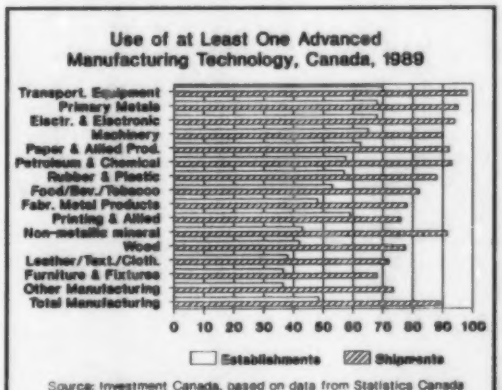
Source: Investment Canada, based on data from OECD

- The Porter diamond identifies the four key elements which, along with chance and government, determine the capacity of a nation to innovate and upgrade.
- According to Porter, Canada requires: greater local rivalry, improved labour-management relationships, a stable macroeconomic environment, improved R&D and physical infrastructure, improved workforce skills, industrial clusters and reform of regulations to provide increased impetus to innovate.



Source: Adapted from The Monitor Company (Porter et al.), *Canada at the Crossroads: the Reality of a New Competitive Environment*, Business Council on National Issues and the Government of Canada, Ottawa, October, 1991

- Only half the establishments in manufacturing are currently using at least one advanced technology and larger plants are more likely to do so.
- Canadian business spends far less on training and education than businesses in leading competitor countries.
- In the 1980s, Canada was second to last in the G7 in gross expenditure on R&D as a proportion of GDP. Smaller countries such as Switzerland, Sweden and the Netherlands also spent a higher share of their GDP on R&D. In 1987, in only two industries - electronics and computers - did Canadian efforts exceed the G7 average.



Source: Investment Canada, based on data from Statistics Canada

long-standing complaint that Central Canadian financial institutions are insensitive to the needs of the Western provinces. It was also suggested that some of the very large Canadian pension funds take a more entrepreneurial approach and that they be encouraged to invest more actively in equity positions. The access of small businesses to equity capital was viewed as an important issue, which might be addressed through some combination of tax policy and new venture capital pools. It was suggested that excessive regulation of equity markets is inhibiting the creation of small businesses.

There was also considerable discussion concerning the knowledge gap between suppliers and users of capital. It was stressed that users of capital, particularly small businesses, will have to improve their business plan presentations if they hope to secure outside financing. Suppliers of capital also must learn more about soft assets and recognize that the value of such assets is often greater than bricks and mortar.

There was consensus that all stakeholders should promote the development of new sources of long-term, patient investment capital. There was some discussion of how to gain better access to international venture capital pools. Mechanisms to encourage greater reinvestment of earnings were also discussed.

GREATER INVESTMENT IN R&D AND TECHNOLOGY-RELATED INNOVATION

There was a call for a much improved effort in R&D and technology-related innovation. Forum participants recognized that both are essential to keeping Canada at the vanguard of industrialized nations. While it was also conceded that Canada's tax measures concerning R&D are generally favourable, there are nonetheless serious weaknesses that must be addressed, particularly on the development side. Some participants advocated the adoption of a broader definition of R&D in the tax code to cover in-house process and product improvements, and commercialization. Participants also noted that the tax treatment of investment in staff-training is not fully complementary to the treatment of investment in new technologies. It was agreed that industry-based R&D should be increased and, to this end, that governments should increase contracting out of R&D and encourage more private sector business participation in their laboratories.

To achieve a higher degree of R&D we must ensure that Canada has a greater share of technologically advanced firms. Some participants pointed to foreign ownership as inhibiting technology development, while others contended that foreign firms have a good R&D record in Canada and are a major conduit for importing technology to Canada. The main solution appeared to centre on ensuring that Canada has the scientific and other skill requirements necessary to support an expanded R&D effort. This is the fundamental issue, not ownership. In this connection, participants echoed the suggestion of Art Price — R&D should be more effectively promoted by forging stronger partnerships between governments and business in financing university-based research, and by the commercialization of that research.

EDUCATION AND TRAINING: THE KEYS TO QUALITY INVESTMENT

All workshops emphasized the importance of managing our human resources to their full potential by improving the educational system and Canada's training record. Forum participants agreed unanimously that Canada's ultimate resource is its labour force and that there is increasing emphasis on continuous learning. Quality investment is derived through quality education and training. It was observed that a "fundamental retooling of the education system" is needed.

Suggestions for improving the education system included implementing national standards for teachers and students, lengthening and intensifying the school year, and improving the co-ordination between school curricula and the needs of business. Teachers should be paid on the basis of merit rather than on a fixed scale. Canadians also need to place more value on technical career choices. In particular, women should be encouraged to enter non-traditional areas.

Many participants suggested that the private sector must become a more active participant in the education and training process. As one participant observed:

> *We need to make the education system pro-business. The present system hampers Canada's competitiveness.*

The education system and government policies generally should play a key role in creating an enterprise culture. To this end, several participants recommended a closer partnership between the business and education communities. Some suggested a complementary dual education system supported by both the public and private sectors, incorporating regional economic needs and realities. Greater use of apprenticeships at the secondary level were advocated. In the post-secondary system, the co-op program developed at the University of Waterloo has earned an excellent reputation. The concept of lifelong learning was also strongly supported.

Participants felt that governments should do more to encourage retraining and to improve the marketing of its training programs. A higher profile for, and greater pride in, technical and occupational training must also be developed. For its part, industry should improve managerial training and general training commitments, and skill training should better reflect the demands of the workplace.

Need for Commitment to Total Quality Management

Nearly all participants were committed to TQM and observations concerning the concept were both positive and normative. It was felt that skill training should include greater emphasis on the principles and practices of the concept. Canadian workers and management must better recognize the paramount importance of the consumer as the client. Defects and other qualitative irregularities must be kept to an absolute minimum. Work must be organized so as to instil pride in output, and the pay system must reward excellence in a much more direct way than is now the case. Some suggested that business associations can and should play a greater role in the dissemination of "best practices" information.

One participant stated,

> *I am encouraged by the national commitment to quality, and the growing use of TQM; we take time to define client needs and we try harder.*

The general feeling expressed during the Forums is, however, that there is still considerable room for improvement.

Improved Quality through Governments as Facilitators

Generally, participants agreed that governments should focus on their roles as facilitators. Participants at the Halifax and Montreal Forums appeared to favour a broad framework for focussing government support. In contrast, many participants at the Vancouver Forum argued for the least possible government intervention. While views concerning the role of governments varied considerably, there did seem to be consensus about the futility of trying to pick winners. Governments that depart from the policy guideline of neutrality should do so only in a very broad manner.

In this context, regional development policies were regarded as counterproductive. Many recognized that regional development policies have too often led to shoring-up inefficient producers or caused excess capacity — to the detriment of efficient producers. Even participants in Halifax acknowledged that old-style regional development policies had failed to strengthen Canada's competitive position, and had certainly not done anything substantive for the Atlantic Region. There was general recognition that quality investment builds on the natural advantages of each region and is much preferable to attempting to clone investments across the country. Government subsidies to industry have led to extensive inefficiencies and have slowed much-needed restructuring.

Reduced government expenditures and reduced taxes would free up capital for more productive applications in the private sector.

Greater reliance on user charges was also advocated by some, so as to minimize government waste. There were repeated requests to streamline government at all levels — a view that was echoed in the calls for a renewal of the federal system. Governments were acknowledged to have a direct role in the provision of infrastructure. While many foreigners consider Canada's infrastructure to be an enormous strength, some participants were critical. Many cited the high-profile debate in the United States which has concluded that there is an especially high return from investment in infrastructure. Infrastructure, like investment, is no longer considered to be simply bricks and mortar; infrastructure also has important linkages to our human resource and knowledge bases.

Government regulatory activities were repeatedly criticised, especially those related to labour codes and the environment. With respect to labour codes, recent developments in Ontario have greatly alarmed the business community. In regard to environmental regulations, a strong case was made that federal and provincial governments must develop a much greater appreciation of the implications of their policies for the competitive position of Canadian exporters. Participants agreed that there is a need for greater consistency in applying regulations. In his address to the Vancouver Forum, Stanley Kwok stated that "a major complaint about trying to invest in Canada is . . . that the goalposts are constantly being moved". Nevertheless, it was also recognized that improved environmental performance is a powerful source of competitive advantage as firms increase their efficient use of resources and inputs.

THE NEED FOR A STRONGER AND BETTER-FUNCTIONING CANADIAN ECONOMIC UNION

Participants expressed considerable impatience with internal barriers to the free flow of goods, people and capital. This impatience was usually triggered by reference to lost trade opportunities, but Forum participants also noted the strong connection to quality investments. Balkanizing Canada simply means undermining the ability of firms to serve either domestic or global markets from a Canadian base. The result is a weakened business sector and a weakened ability to attract quality investment from either Canadian or foreign investors. Supply management boards were cited by some participants as an example of balkanization to the detriment of quality investment. It was felt that measurable progress should be made with target dates for action; the current deadline of 1995, set by the federal and provincial governments, is too late.

There were also complaints about counterproductive competition for investment among the provinces. It was acknowledged that subsidies to local firms are often at the expense of other established Canadian producers. Canadian firms must grow in scale, and not be hampered by a regional mentality that is at odds with the demands of global markets.

THE NEED FOR BETTER PARTNERSHIPS AMONG ALL STAKEHOLDERS

Participants focussed on the need for more productive partnerships among all stakeholders. There was a strong consensus that new and innovative relationships must be developed to respond to the forces of globalization, and that the adversarial we/they approach is no longer appropriate. More emphasis should be put on win/win solutions. Some participants suggested that industry associations could play an important new role — providing individual firms with leadership and helping them achieve strategic goals.

Not surprisingly, Investment Forum participants expressed concern about the state of business-labour relations and their implications for competitiveness. There was a strong consensus that the conflict between business and labour is genuine and that it has a detrimental impact on the economic and investment climate. Predictably, this concern generated two responses. Some participants argued for tighter restrictions on the way in which organized labour participates in the economy. Others focussed on the need to introduce profit-sharing, employee-ownership (shareholding) and employee involvement in

training and other traditional management prerogatives — so workers are more directly accountable and responsible for the firm's performance. This is an important distinction. While some had difficulty with the way in which the labour movement responds at an aggregate or national level, many were favourably disposed to enter into partnerships with labour on a sectoral or "plant floor" basis. These involved practices that encourage multi-skilling and that develop a sense of partnership and ownership among all the employees in a firm.

There are useful models of cooperation that should be built upon; the Canadian Labour Market and Productivity Centre and Quebec Inc. were cited as good examples of stakeholders working together toward common goals. Many such partnerships relate to TQM as well as training and development activities. In this regard, several industry and academic linkages were discussed, such as expanding the co-op educational model and increasing industry input into curriculum design. It is evident that there is already substantial partnering at this level and that more is possible. The focus is on developing commitment, accountability and responsibility from the CEO to the shop floor. Regardless of the perspective, however, it was recognized that all stakeholders will be required to behave in new ways.

With reference to Michael Porter's work, there was considerable discussion of how to follow an industrial clusters approach that encourages large and small firm linkages as well as international linkages. Potential partnerships from this perspective include: dissemination of technology and best practices from large "champion" firms to small firm suppliers; development of firm-to-firm cooperation in pre-competitive and export market consortia; and facilitation of strategic alliances with larger, public or foreign businesses.

WORKSHOP ON THEME 3 — SEEKING FOREIGN INVESTMENT

The only practical answer lies in developing national policies that reward any global corporation that invests in the American [or Canadian] work force. In a whole set of public policy areas, involving trade, publicly supported R&D, antitrust, foreign direct investment, and public and private investment, the overriding goal should be to induce global corporations to build human capital in America [in Canada].

Robert B. Reich
"Who is Us"

FOREIGN INVESTMENT IS VITAL FOR CANADA

Participants in all five Forums acknowledged the vital role played by foreign investment in reinforcing Canada's competitive position. While there were some scattered references to branch-plant economies and inadequate R&D, the overwhelming view was that the benefits of foreign investment far outweigh the costs. Participants from the Atlantic Region stressed how such investment enables small firms in the region to form joint ventures with foreign (especially European) partners, facilitating trade expansion and up-to-date technology. It was also recognized that the question of performance, not ownership, is key.

BE MORE CREATIVE IN ATTRACTING FOREIGN INVESTMENT

Canadians must reinforce the notion that Canada is a first-class place to live and work -- a view that is rapidly gaining currency abroad. We should worry less about convincing foreigners that we are a low-cost country. Canada is a highly-advanced country with one of the highest productivity levels in the world. Investment should be seen as a business, and those involved in its promotion must know their products as well as their markets.

Concern was expressed that the materials used to promote foreign investment in Canada are inadequate; more detailed information concerning specific sector opportunities should be available. Case histories should cite successful ventures and use such models to promote future investments.

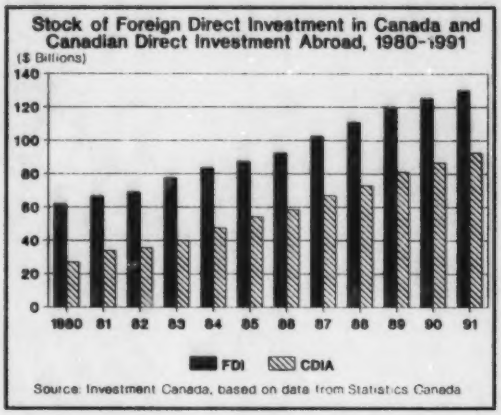
Key Points For Discussion - Seeking Foreign Investment

- Are the regulatory provisions concerning foreign acquisitions of Canadian firms appropriate? Are there sectoral problems?
- Are there investment provisions that Canadian firms would like to see reflected in the NAFTA and other trade agreements?
- Has the competition for international investment greatly intensified? What has been the experience of Canadian firms in attracting international investors?
- Is there concern about a possible international capital crunch, given the changing circumstances of traditional supplier countries (e.g., Japan and Germany) and the demands of some countries (e.g, Eastern Europe)?
- Are we conveying the right messages to the international community about investing in Canada? Should we be doing more to elevate international awareness about sector-specific investment opportunities in Canada?
- Are there sufficient linkages between trade and investment promotion?
- Increasingly, foreign firms are requesting highly detailed information concerning investment opportunities in Canada. Should the federal and provincial governments considerably expand their investment advisory services?
- What can and should be done to coordinate better the investment promotion activities of the three levels of government?
- Are there ways of drawing upon the expertise of the private sector, so as to improve the investment information network?

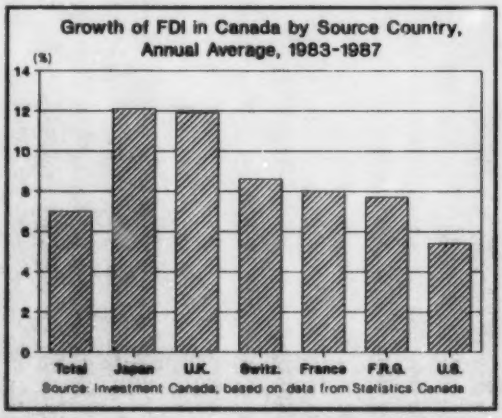
U.S. competition for foreign investment must be countered more aggressively. Also, both the public and private sectors should recognize that many of their most active foreign investment prospects are already well established in Canada, and that reinvested

SEEKING FOREIGN INVESTMENT

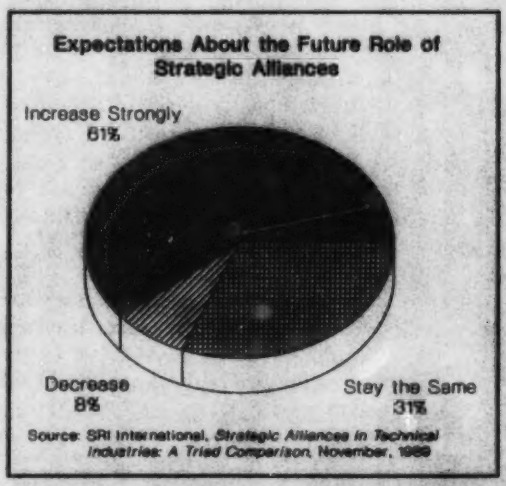
- International investment is a two-way street. Both foreign direct investment in Canada and Canadian direct investment abroad have grown in the 1980s.
- With globalization, intense competition has developed for foreign investment. Canadian efforts to attract investment are increasingly encountering competition from incentives offered by U.S. states.



- Japan and the United Kingdom represent the fastest growing sources of FDI.
- Increased demand for capital as a result of the restructuring of Eastern Europe, the reunification of Germany, economic integration in Western Europe and developments in Latin America, combined with projections of reduced supply, particularly from Japan, indicate competition will be more intense in the years to come.



- Strategic alliances are now a key form of international investment.
- Among small and medium-size firms, especially those in technology-based industries, alliances have become fundamental to building and sustaining competitive advantage.
- The generally small size of firms in Canada makes it more difficult to meet new global realities.
- Joint ventures and other forms of strategic alliances are one way of overcoming these difficulties.



earnings represent a major source of foreign investment. Focussing on investors who are already established has proved to be particularly worthwhile in Quebec and has contributed substantially to the development of the Quebec Inc. model and an industrial cluster approach.

COORDINATE GOVERNMENT APPROACHES

Governments have an important role to play in all investment scenarios, but participants stressed that the role of governments should be as facilitators rather than as direct players. Everyone appeared to favour the coordination and simplification of government programs and policies. There was a general sense that much more should be done to help individual investors work through the maze of programs and policies at all levels of government. The practices in the United States were cited as examples of how best to court the investor. There were many references to the growing number of incentives offered by some U.S. states and their importance in attracting and retaining investment from outsiders. Some participants also saw evidence of unprofitable competition among provincial governments and between provinces and the federal government.

There was general agreement that investment promotion activities should be better coordinated and rationalized and should recognize the increasing linkages between trade, technology and investment. Participants welcomed Minister Wilson's release at the Toronto Forum of a publication titled "International Trade Business Plan" (available from the Info/Export Centre at 1-800-267-8376 or from any International Trade Centre), which outlined an integrated plan to promote trade, investment and technology development for Canada. Participants noted that current government programs are not up to the task of increasing international business investment in a way that builds on all of the synergies among trade, technology and investment.

FAVOUR LIBERAL FOREIGN INVESTMENT REGIME

Participants, particularly in the West, commented favourably on the elimination of the Foreign Investment Review Agency and the National Energy Program. Recent changes to the regulations concerning the oil and gas sector were also welcomed. Investment Canada's role of monitoring foreign acquisitions was neither praised nor damned and restrictions in sectors such as banking or telecommunications were not addressed.

Somewhat surprisingly, there were very few comments on the international agreements concerning foreign investment. For example, there was no mention of the GATT proposals concerning trade-related investment measures which would prohibit Canada and other member countries from imposing trade-distorting conditions on foreign investors. Nor did participants indicate what should be included in the NAFTA concerning foreign investment, other than to observe that capital should be allowed to flow unencumbered among the three countries.

THE REGULATORY IMPLICATIONS OF INTERNATIONAL MARKETS

Many participants stressed the need for better recognition of the fact that many Canadian markets are now contested from outside the country and that firms achieve efficient size in relation to international, not domestic, markets. Some suggested that competition policy should continue to evolve from this perspective. Others noted the development of public and private technology consortia in the United States and Europe as a means to facilitate the growth of innovative clusters of activity. Participants wondered whether Canada's regulatory framework is positioned to facilitate, rather than hinder, such technology consortia. Many argued that the rapid changes typical of developments associated with international markets are already straining the regulatory system. To address this problem, there was a general plea for more self-regulation and for fewer "command and control" type rules.

DEVELOP NEW APPROACHES TO INVESTMENT PROMOTION

Many participants were leery of encouraging governments to pursue investment promotion efforts that require "picking winners". It was recognized, however, that the global economy is changing rapidly and that opportunities in high-technology sectors are

subject to extreme competition among the industrialized countries. In this context, some offered the view that it is naïve of Canada to assume that such opportunities will occur "naturally". The conclusion was that we must focus our efforts in practical ways to attract investment in high-growth sectors. The special problems of small- and medium-sized enterprises were highlighted. The rapporteur for the Toronto workshop noted the differing views, but reported that the dominant view in her group favoured stimulating venture capital investment in the "new technologies". One participant suggested that Canada should be more adept at using procurement policy in support of desired investment. Some participants also highlighted the importance of municipal governments in attracting international investment, and the need to improve the coordination of these activities, particularly with other levels of government. There was recognition that new approaches to investment promotion are desirable in light of globalization and innovation "best practices".

Geographic Emphasis and Responding to the Triad

There was little support for promotion efforts that would target one geographic area over others. However, everyone recognized the need for Canadian business to do more and to search for new ways to enter international markets, wherever they may be. Western participants emphasized the Pacific Rim connection, and registered their concern about being in a good position to attract quality Asian investments. In this connection, some participants called for closer scrutiny of eligible investments under the special business class immigrant program. At the same time, it was agreed that stronger investment ties with Europe are needed. Eastern Europe holds some promise, but participants were extremely cautious about immediate prospects. There was a consensus that the major player for Canada continues to be the United States.

Participants recognized the significance of an emerging Triad of industrialized and industrializing countries in Europe, North America and the Pacific Rim. Competition between blocs is fierce, and new rules are emerging unique to each region. There are also significant cultural differences within and among the blocs. All of these considerations create "pull" factors, encouraging Canadian firms to undertake investment and trade activities in each bloc. So it is not only the "push" factors of Canada's investment climate leading its firms to invest outside the country.

WORKSHOP ON THEME 4 — CANADIAN FIRMS AND GLOBAL MARKETS

National success in an industry increasingly means that the nation is the home base for leading multinationals in the industry, not just for domestic firms that export.

Michael Porter
The Competitive Advantage of Nations

DEVELOPING HOME BASES

The rapid and fundamental changes taking place in the global economy are having profound effects on Canadian businesses. Many Canadians would like to be protected from the encroachments of global competition. In the view of participants, however, it would be folly to try to respond to global competition by protectionism and subsidies to uncompetitive domestic industries. As was observed in one workshop, "we should lose the losers". All stakeholders should support those industries and firms that have a chance of success in the international marketplace.

In this connection, participants spoke of the concept of developing "home base" activities in Canada, with supporting clusters of industrial activity located in relation to suppliers and customers.

Key Points For Discussion - Canadian Firms and Global Markets

- What is meant by globalization and what are the key implications for Canadian-based firms? Are Canadian firms sufficiently aware of the need to think and act "globally"?
- Canadian firms are typically very small compared to foreign competitors. Is this posing a major problem in developing global markets? Should the government be involved in assisting Canadian firms to become global? If so, how?
- Are changes in government policy needed in order to facilitate global business structures? Are Canada's investment and competition policies sufficiently integrated?
- Joint ventures and other forms of strategic alliances are increasingly important ways for "going global". What has been the experience of Canadian firms with such ventures?
- Are formal regulations or informal factors (e.g., linkages between the banking and commercial sectors) in other countries impeding the efforts of Canadian firms to expand abroad?
- Is the trade and investment relationship being properly developed? Should the government become more active in facilitating the linkages?
- Are Canadian firms sufficiently plugged into the international technology network? Are there investment-related activities that the government should undertake in order to strengthen Canadian participation in this network?
- Are Canadian-based subsidiaries of foreign multinationals at a disadvantage in responding to the requirements of global restructuring? Are emerging management structures compatible with Canadian entrepreneurism?

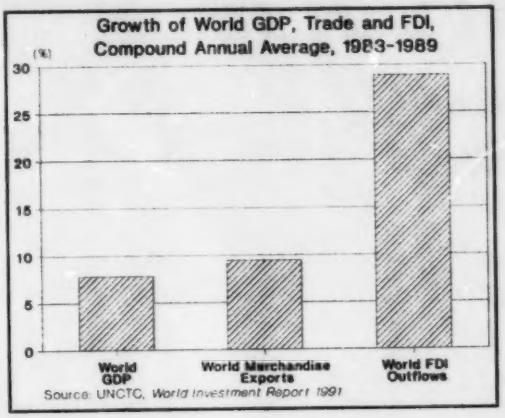
FINDING NICHES AND SPECIALIZING

Many participants identified the novel ways in which their firms are finding niches and specializing in global markets. It was generally agreed that if firms are to be profitable over the long term, business could no longer focus on the Canadian domestic market alone.

There was recognition that two-way investment flows are key to securing and maintaining competitiveness, and that strategic alliances are a necessary part of doing business. This was felt to be especially true for Canada given its small domestic market. The diversity and sophistication of modern business, however, is still burdened by a few sectors dedicated to old-fashioned ways of serving traditional markets. Many of the natural resource-based industries, such as the steel industry, must accelerate efforts to specialize. In this regard, it was noted that being large is not necessarily advantageous. Small firms are often able to demonstrate greater flexibility and innovation. Value-added, rather than bulk sales, should be the objective.

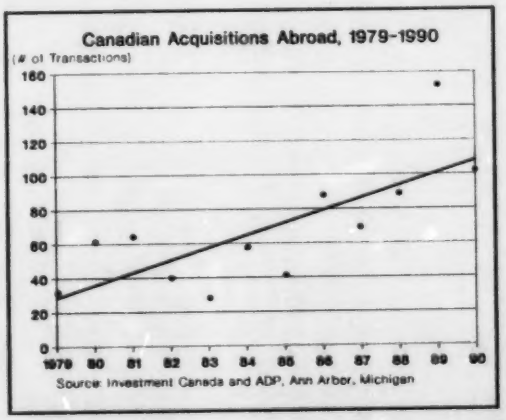
CANADIAN FIRMS AND GLOBAL MARKETS

• International direct investment has become a key engine of globalization - growing three times faster than world exports and four times faster than world trade from 1983 to 1989.



• The trend has been toward increases in both the number and the value of Canadian acquisitions abroad, however while more and more Canadian firms are undertaking investments abroad, fewer than 50 firms account for more than 70 per cent of such investment.

• The three most significant factors influencing the decision to invest abroad appear to be: the perceived need for outward expansion; geographic/product line diversification; trade barriers and transportation costs.



• Canadian-based multinationals also rely heavily on strategic alliances, as illustrated by Northern Telecom.

• For example, it has licensees in Europe, joint ventures with firms in Australia and China, and strategic alliances with nine firms in the United States.

The vital role of the service sector was underscored. Participants noted that more must be done to encourage Canada's service industry to think globally. Also, a great number of Canadian manufacturers are still domestically oriented, and appear to lack the necessary aggressiveness with respect to international marketing and networking. While it was generally agreed that the domestic market is an important base, many business representatives indicated that their firms had to develop global markets from the outset. The presentations by John Pitts, President of MacDonald Dettwiler; Donald Beaupré, CEO of SR Telecom; Tom Hayes, President of Atlantic Fish Specialities; and Douglas Barber, CEO of Gennum Corporation illustrated this point. A rapporteur for the Toronto workshop stated the following:

> *If you are selling a Canadian "arm" like the one produced by Spar Aerospace, it really doesn't matter how much it costs; it is the only one available. There are a lot of niche markets like this that we should be developing into international businesses.*

Facilitating the Adjustment Process

Participants expressed serious concern about the attitude of Canadian workers and their growing resistance to change in the workplace. The shock of rising unemployment and job insecurity has frightened many and, indeed, many thought that the low regard for the FTA and the NAFTA among Canadian workers is largely a consequence of this anxiety.

Business representatives noted that they have neglected the interests of Canadian workers and agreed that this attitude must change. In addition to the need for a substantial increase in private sector investment in training, Canadian firms must introduce ways for workers to participate in corporate success. Employee stock ownership and bonus plans were mentioned, as well as the Japanese-style commitment to the lifelong interests of workers.

Joint Ventures and Strategic Alliances: A Natural Way of "Going Global"

According to some participants, many Canadian firms should become proactive and form strategic alliances at home and abroad. It was recognized that such alliances are not a foolproof formula for successful ventures. However, it was strongly held that firms should be willing to enter into partnership agreements with related firms — whether domestic or foreign — to develop mutual international business interests. Consortiums are becoming increasingly necessary. High-technology firms are discovering that they must join forces with competitors to undertake the costly research needed for new product development. Joint ventures facilitate meeting international quality standards and the adoption of TQM standards and practices. Also, joint ventures often facilitate the use of the best people for specific jobs — regardless of citizenship.

Need for a Level Playing Field Abroad

Canadian firms need strong backup from their governments in dealing with international barriers to trade and investment. Frustration was registered with respect to U.S. interventions, and difficulties breaking into European and Asian markets caused by institutional barriers to investment. Resolution of the GATT impasse was also strongly advocated.

Canadians Must be Educated about International Business Developments

Investment Forum participants believed that Canadians are not paying sufficient attention to the international perspective. Canadian students should be aware of global events. The school system must do more to encourage students to take courses that will facilitate international careers. One frustrated participant recounted how his local school had offered Japanese language instruction, but failed to integrate the progression of courses

sufficiently to allow continuation in university. An international awards program and more frequent student exchanges would be useful.

Because of Canada's rich multicultural heritage, it should be relatively easy to expand our international perspective. Participants at the Vancouver Forum emphasized the Pacific Rim connection and all participants spoke positively about Canada's potential as a result of personal ties with all parts of the world. Many agreed that too much attention is devoted to Canada's relationship with the United States, although others cautioned that the U.S. is our main trading partner and will remain so for the foreseeable future.

BETTER COORDINATION OF GOVERNMENT SERVICES NEEDED

A recurring theme common in many workshops was the need to lower the bureaucratic hurdles businesses must jump in their efforts to develop overseas markets. This problem is especially onerous for small businesses. For example, an Ontario-based firm wishing to do business in Malaysia must deal provincially with the Ontario International Corporation and the Ministry of Industry Trade and Technology, and federally with Industry, Science & Technology Canada, External Affairs and International Trade Canada, and Investment Canada.

By the time you get all the necessary forms filled out and meet with all the appropriate people, a serious amount of time and energy has been used up. It would be most beneficial if there could be a sort of "one-stop shop", where all these services are coordinated and focussed.

There was praise for Canada's trade commissioners and investment counsellors. Longer terms and less rotation, however, would allow individuals to establish stronger networks and acquire greater knowledge of local conditions. Further, the trade, technology and investment linkages need strengthening. It was felt that many of Canada's missions abroad really address only the more traditional trade dimension.

Canadian direct investment abroad was seen as a logical complement to trade expansion. It was suggested that data banks be established to facilitate access to mission information, and rationalization of federal and provincial missions abroad is also required.

Finally, participants suggested that industry organizations should work more closely with government departments. Indeed, some saw strengthened industry organizations as substitutes for at least some of the lesser functions of government. The German model, which puts a high priority on business leadership, was cited as a goal that Canada might work toward.

CONCLUSIONS

Workers and their unions, contrary to many misconceptions, have seen the development of the nation's productive capacity as a critical objective. ... We do, however, put "productive capacity" in a particular context. We see it as a tool to achieve other goals which extend beyond having more material goods and services to the kind of society we want.

Robert White
National President, CAW, 1990

Although the Investment Forums were not designed to obtain consensus-based recommendations, they did, however, provide a clear sense of the concerns of a broad range of participants.

One message was very clear. Canada faces a national investment challenge. Business, government, labour and academic participants accept this challenge as a given.

The investment climate was a priority for all participants. There was a strong sense that we must "get it right", and that we must be prepared to make ongoing adjustments in order to remain competitive. It was also felt that the investment climate is more important today than it has ever been in light of global markets.

There was an implicit assumption at all the Forums that Canada has begun to put in place the underpinnings required to secure prosperity. The present investment climate has a number of strengths and Canadian business is expanding in international niche markets as a result.

However, there was a unanimous view that there is still much to be done to put the investment climate right. Perhaps the most constant refrain was "*taxes, taxes, taxes!*", but a number of other framework and regulatory factors which put Canadian firms at a disadvantage were identified.

Participants recognized that business must take the lead in responding to the National Investment Challenge. Most participants viewed a high level of quality investments as the critical measure of improved long-term corporate performance. There is a need for long-term, patient capital that focusses on specialized areas of expertise, not on specific products. Although Canadian firms are competing successfully in international niche markets, there is much that can, and should, be learned from abroad. Much more has to be done in the areas of entrepreneurship, total quality management, training and strategic partnering. It was also recognized that, in general, investment in R&D in Canada

What should business do?

- Private sector leads on investment; pursues long-term growth
- Greater international perspective - learn from abroad
- Specialize and develop global niche markets
- Entrepreneurship and innovation - increase M&E and technology investment
- Quality - workforce of the firm as a source of strength
- Work with all stakeholders/develop leading edge clusters

What should labour do?

- Training the key
- Priority on flexibility
- Accountability and responsibility (e.g., employee ownership)

What should governments do?

- Secure optimum, stable investment climate
- Streamline all levels of government
- Continue liberalization - domestic and international
- Encourage investment in R&D and innovation networks; avoid supporting losers
- Ensure linkages between sustainable development, social policies and competitiveness

has been lagging and that the private sector should do more in this critical area.

Given the limited participation of labour, it is not easy to summarize its role as expressed at the Investment Forums. However, labour participants focussed on the need to give workers more direct accountability and responsibility for firm performance through such vehicles as profit-sharing and employee-ownership. Positive suggestions were also made regarding partnerships with labour on a sectoral or plant-floor basis. It is evident that a great deal of partnering already exists at this level and that much more is possible. Training and flexibility are the keys here. Above all, the workforce must be developed to its full potential.

Much discussion centred on what governments should do. First, the point was made that all governments can either help or hinder Canada's effort to meet the investment challenge. Both federal and provincial governments must focus on securing a stable investment climate using international benchmarks to set standards. There was unanimity that federal and provincial deficits are damaging to Canada's investment climate. Decisive action is required to reduce these deficits. Participants stressed that policies made in one area must be constantly reviewed for their implications in other areas. For example, social and economic policies should be designed to reinforce each other. Close coordination is required among levels of government of policies that affect the investment climate.

There was a strong consensus that Canadian society too often portrays international situations in we/they terms. This encourages unnecessary conflict and is detrimental to the investment climate. Recurring themes included the need to sharpen our focus on the long-term, and to identify win-win solutions. Participants spent a great deal of time discussing the potential for new partnerships and new solutions. For example, formal mechanisms such as competitiveness audits would provide a means to bring stakeholders together and at the same time permit all stakeholders to focus on the issue at hand. Better linkages between firms and research, education and training organizations are needed as are more flexible arrangements at the firm and sector levels to facilitate training and TQM. Finally, strategic alliances and technology consortia are high priority items, as are cluster strategies that foster linkages between large and small firms.

Examining these types of partnerships may be particularly helpful as Investment Canada – and the Government of Canada — turn attention to building on the consultative process and the results of the Investment Forums. A broadly-based commitment to an action plan on investment would represent good progress towards meeting the national investment challenge.

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Publications Officer
Investment Research and Policy
Investment Canada
P.O. Box 2800, Station D
Ottawa, Ontario K1P 6A5

Tel:(613) 992-3847

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